

Message Text

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ACTION EB-08

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COME-00 DODE-00 DOE-15 H-01 INR-10 INT-05 L-03
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C O N F I D E N T I A L OTTAWA 03049

E.O. 11652: GDS
TAGS: ENRG, CA
SUBJECT: HUSKY OIL TAKEOVER

REF: CALGARY 364

1. DURING QUESTION PERIOD EXCHANGE JUNE 15, NEW DEMO-
CRATIC PARTY (NDP) ENERGY CRITIC "TOMMY" DOUGLAS CALLED
ON ENERGY, MINES AND RESOURCES (EMR) MINISTER ALASTAIR
GILLESPIE TO ASSURE HOUSE THAT GOVERNMENT WILL ENSURE THAT
CONTROL OF HUSKY OIL COMPANY AND ITS ASSETS WILL CONTINUE
TO BE MAINTAINED IN CANADA EITHER BY PETROCANADA OR BY
PETROCANADA IN PARTNERSHIP WITH GOVERNMENTS OF ALBERTA
AND SASKATCHEWAN. GILLESPIE REPLIED THAT RAPID DEVELOP-
MENT OF HEAVY OIL DEPOSITS WAS GOVERNMENT PRIORITY AND
THAT PETROCANADA'S EFFORTS TO TAKEOVER HUSKY HAD GOVERN-
MENT'S BLESSING. IF, HOWEVER, HEAVY OIL DEVELOPMENT
WOULD ALSO GO FORWARD FOLLOWING ACQUISITION OF HUSKY BY
OCCIDENTAL PETROLEUM, CANADIAN OBJECTIVE WOULD LIKEWISE
BE SECURED. GILLESPIE, THEREFORE, REFUSED TO PREJUDGE
EITHER PETROCANADA OR OCCIDENTAL OFFER.

2. UNDER FURTHER NDP QUESTIONING, PRIME MINISTER TRUDEAU
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CONFIRMED GOVERNMENT'S REFUSAL TO PREJUDGE EITHER OFFER
IF IT WOULD LEAD TO TIMELY HEAVY OIL DEVELOPMENT WHICH IS
IN NATIONAL INTEREST.

3. COMMENT: ACCORDING TO AUTHORITATIVE SOURCE AT EMR,
GILLESPIE IS DISAPPOINTED WITH RATE AT WHICH HUSKY HAS
MOVED TO DEVELOP HEAVY OIL IN ALBERTA AND SASKATCHEWAN.

THIS JUDGMENT IS SOMEWHAT HARSH IN THAT HUSKY HAS APPARENTLY HAD FINANCIAL DIFFICULTIES FOLLOWING ACQUISITION OF UNION OIL'S DISTRIBUTION SYSTEM IN WESTERN CANADA AND WAS SOMEWHAT HANDICAPPED IN ITS EFFORTS TO MOVE AHEAD WITH HEAVY OIL DEVELOPMENT BECAUSE OF RESTRICTIONS ON HEAVY OIL TRADE WITH U.S. WHICH WERE NOT REMOVED UNTIL LAST YEAR.

4. EMR SOURCE ALSO TELLS US THAT CABINET IS LIKELY TO BE INFLUENCED IN HUSKY OIL DEAL BY VIEWS OF BILL HOPPER, PRESIDENT AND CHIEF EXECUTIVE OFFICE OF PETROCANADA. PRIME MINISTER AND OTHER CABINET MEMBERS EXCEPT JACK HORNER TEND TO RELY ON HOPPER'S ADVICE REGARDING PETROLEUM INDUSTRY POLICY. HORNER, BECAUSE OF UNPOPULARITY OF PETROCANADA IN ALBERTA, IS OPENLY HOSTILE TO NATIONAL PETROLEUM COMPANY AND ITS LEADERSHIP.

5. CABINET, AS INDICATED BY GILLESPIE'S STATEMENT IN HOUSE, IS WAITING FOR HOPPER TO MAKE HIS FINAL PLAY. PETROCANADA WILL PROBABLY NOT GO FOR BROKE IN SOLO EFFORT TO ACQUIRE HUSKY. HUSKY PROPERTIES IN ALBERTA AND SASKATCHEWAN ARE NOT ALL THAT ATTRACTIVE AN INVESTMENT FOR PETROCANADA. HOPPER TOLD EMBASSY SOURCE THAT PETROCANADA NEEDS DESPERATELY TO FIND AN INVESTMENT THAT WILL BRING IN QUICK, STRONG CASH FLOW. IT IS NOW LIVING OFF DEPLETING ASSETS OF ARCO WHICH IT PURCHASED LAST YEAR. ALL OF ITS OTHER INVESTMENTS AND INVESTMENT PROSPECTS INVOLVE CONFIDENTIAL

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EITHER HIGH RISK AND LONG LEAD TIMES (FRONTIER EXPLORATION) OR INVOLVE HEAVY CAPITAL INVESTMENTS AND SOMEWHAT RESTRICTED RATES OF RETURN (POSSIBLE PARTICIPATION IN COLD LAKE HEAVY OIL PROJECT). PETROCANADA IS THEREFORE NOT LIKELY TO RAISE BIDDING MUCH HIGHER IN EFFORT TO ACQUIRE HUSKY. IT CANNOT AFFORD TO SINK MUCH MORE OF ITS CAPITAL IN HUSKY TAKEOVER. WHAT PETROCANADA REALLY NEEDS IS TO BUY INTO LIGHT OIL PRODUCTION.

6. BECAUSE PETROCANADA'S INTEREST IN HUSKY IS THUS SOMEWHAT CONSTRAINED, IT IS POSSIBLE THAT TRIPARTITE COMPROMISE MIGHT EVOLVE OUT OF PRESENT CONTEST BETWEEN PETROCANADA AND OCCIDENTAL. PARTICIPATION BY OCCIDENTAL WOULD PROVIDE HEAVY OIL DEVELOPMENT WITH MANAGERIAL TALENT AND FINANCIAL SPARK THAT PROJECT WOULD NEED WHILE PETROCANADA'S PARTICIPATION WOULD SATISFY POLITICAL DEMANDS OF ECONOMIC NATIONALISTS. MOREOVER, SHARING PROJECT WITH OCCIDENTAL WOULD DECREASE PETROCANADA'S SUNK COST IN PROJECT AND NOT TIE UP ASSETS NEEDED FOR MORE ATTRACTIVE INVESTMENTS. THREE-WAY PARTNERSHIP WOULD ALSO GET FOREIGN INVESTMENT REVIEW ADMINISTRATION (FIRA) OFF THE HOOK IN THAT FIRA WOULD BE IN VERY SERIOUS CONFLICT-OF-INTEREST

SITUATION SHOULD OCCIDENTAL MAKE DECIDING BID. END COMMENT
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